

March 4, 2020

The Honorable Carolyn McGinn, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas 66612

Dear Senator McGinn:

SUBJECT: Fiscal Note for SB 343 by

In accordance with KSA 75-3715a, the following fiscal note concerning SB 343 is respectfully submitted to your committee.

Under current law, a Deferred Retirement Option Plan (DROP) is a retirement plan design feature where a member initiates the calculation of a retirement benefit but opts to defer actual receipt of the benefit for a specified period. During the specified DROP period, the member continues working and the member's benefit is credited to a notional account and made available in a lump sum when the member ultimately leaves employment. In the Kansas Police and Firemen's (KP&F) current DROP plan, member and employers continue making regular contributions to the KP&F system. Currently, only troopers of the Kansas Highway Patrol have a KP&F DROP option. The KP&F DROP option for current eligible employees has a statutory sunset of January 1, 2025.

SB 343 would expand the DROP option to all KP&F members. However, a participating employer would have to apply for approval for its employees to have the DROP option. The authorization for the DROP option would have a statutory sunset of January 1, 2025.

The Kansas Public Retirement System (KPERS) notes that the actuarial cost of a DROP option would depend on member behavior. If members would enter the DROP when they had planned to retire and ultimately work longer, the costs generally are low. However, if members enter the DROP earlier and ultimately retire when they would have without the DROP, there is a higher cost associated with this option.

KPERS' consulting actuary performed a cost projection using different scenarios to estimate the scope of potential costs. The actuary reports that under these scenarios it studied, the

KP&F employer contribution rate could increase by 0.17 percent to 1.16 percent, or between \$800,000 to \$5.9 million above current costs of the KP&F system. However, KPERS notes that the confidence in this projection is low, as it depends on individual member behavior. KPERS anticipates that the enactment of the bill would result in additional variability of member retirement behavior.

KPERS notes that all KP&F employers are required by statute to pay the full actuarial required contribution rate. As a result, with the enactment of SB 343 the DROP would become part of the overall KP&F plan design and the cost of the DROP would be spread among all 112 KP&F employers statewide, including state and local governments. While each employer would have the option to allow participation in the DROP, each employer would be required to pay the full contribution rate.

For additional administrative costs, KPERS estimates that it would require additional FY 2021 operating expenditures of \$139,343 from the KPERS Fund, including \$74,343 for 1.00 FTE Benefit Analyst position and \$65,000 for one-time information technology changes to its member system. Ongoing costs would be for the annual salaries and wages cost of the additional 1.00 FTE position. Any fiscal effect associated with SB 343 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Campbell", written in a cursive style.

Larry L. Campbell
Director of the Budget

cc: Jarod Waltner, KPERS